STATEMENT OF

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PRESIDENT & CHIEF EXECUTIVE OFFICER

THE RAVENNA BANK, RAVENNA, NEB.

On Behalf Of The

NEBRASKA BANKERS ASSOCIATION

At A Public Meeting Of The

FARM CREDIT ADMINISTRATION

JUNE 26, 2003 • McLEAN, VA.

Chairman Reyna, Ms. Pellett, and Mr. Flory, my name is Dale Pohlmann. I am the president and chief executive officer of The Ravenna Bank in Ravenna, Neb. The Ravenna Bank has approximately $53 million in assets and $43 million in outstanding loans and loan commitments, 75 percent of which are to farmers, ranchers, and agribusinesses.

I appear before you today as a representative of the Nebraska Bankers Association ("NBA"). The NBA represents 271 of the 273 commercial banks in the state. Each year, Nebraska banks loan approximately $5-and-a-half billion to finance ag production and the purchase of farm real estate. Almost 98 percent of our state's commercial banks are involved in providing these agricultural loans.

We appreciate the opportunity to participate in this important hearing to discuss Farm Credit Administration ("FCA") regulations governing the eligibility and scope of Farm Credit System ("FCS" or "System") financing and the agency's definition of "moderately priced" rural housing.

Bona Fide Farmer Definition Advances FCS Mission

The current definition of a "bona fide farmer" does not raise any red flags, per se. What does alarm us is the FCS' desire to eliminate the language that directs System institutions to provide "conservative credit to less than full-time farmers" and on an "increasingly conservative basis" as an individual moves further away from full-time farming. If this language is eliminated, the FCA's authority to regulate FCS lending practices will be effectively abolished.

It's no secret that FCS institutions today are increasingly focused on financing "country living"—in other words, second homes, weekend getaways, country estates, golf courses, hunting preserves, and other non-farm properties. If the regulation at issue were repealed, this type of lending would most certainly expand even further. In addition, System lending would likely open up to just about any type of consumer credit: home equity loans, credit cards, car loans and leasing, student loans, you name it. Clearly, this type of lending would not advance the underlying principles of the FCS and its congressionally mandated lending objective for young, beginning, and small ("YBS") farmers and ranchers.

To stop FCS' aggressive lending to the rural rich and famous, and those non-farmers who enjoy the "country lifestyle," we ask that you consider a small addition to the definition of a "bona fide farmer." We suggest that FCS borrowers be required to file an IRS 1040 Schedule F within 24 months of the completion of the financing. The filing of a Schedule F is universal in the United States if farm income or expenses are being generated. This language would assist the FCS in lending to truly “bona fide farmers.” In addition, this requirement would assist FCA examiners in determining the legality of any loan.

May I remind you that as members of the FCA Board, you have a fiduciary responsibility to Congress and the public to ensure that the loans made by the System are safe, sound, and fall within the mission of the Farm Credit System.

Non-Farm Lending Should Not Be Allowed

Questions 2 and 3 in the FCA’s Advance Notice of Proposed Rulemaking (“ANPR”) request input in regard to non-farm lending by the FCS.

The System was created in 1916, at a time when American agriculture was experiencing very limited credit choices. Eighty-seven years have passed since the FCS’ creation, and both agriculture and rural America have changed greatly. Today, my customers have nearly unlimited access to a wide variety of credit opportunities—from both financial and non-financial entities. I have been a banker for 36 years, and I have never before seen the level of competition that exists today—from seed companies and equipment manufacturers to car dealers and life insurance companies. For this reason, I do not see any need to relax the FCA’s regulations in order to meet the “other credit needs” of rural Americans. I am confident that the banking industry and other private sector competitors are successfully meeting the wide-ranging financial needs in present-day rural America.

With today’s extremely competitive credit environment, we question why the System would seek to expand into non-farm and non-farmer lending. Obviously, the System wants the FCA Board to weaken this regulation so that FCS institutions can lend more liberally to borrowers who are not “bona fide farmers.”

The mission of the FCS is limited to deliver specific services to a particular segment of our economy—and this mission should remain in tact as long as the FCS continues to enjoy significant freedom from taxation and the implied full faith and credit of the United States government in borrowing lendable funds. Why should American taxpayers continue to foot the $1 billion-plus subsidy for a government-sponsored enterprise that clearly exceeds congressional intent; targets its lending activities to benefit older, wealthier farmers and those who have no credible interest in ag production; and ignores beginning and economically disadvantaged farmers? I contend that the FCA is acting appropriately in maintaining the original mission of the FCS by restricting System lending to "full-time bona fide farmers" and on an "increasingly conservative basis" for those who stray further from farming.

Suggestions For A Better Approach

H.R. Haldeman, Nixon's chief of staff, was right on when he said, "Once the toothpaste is out of the tube, it's hard to get it back in." Rather than open up the System and allow more questionable lending "out of the tube," the FCS should focus its efforts on meeting the credit needs of YBS farmers and ranchers. Congress specifically defined this mission for the FCS in 1980. By virtually ignoring this 23-year-old mandate, the System has demonstrated a complete lack of respect for the law of the United States. The time has come to put the brakes on the FCS' programs for the privileged—and it's up to the FCA to set the System on the straight and narrow course set forth by Congress.

Surveys by the U.S. Department of Agriculture Economic Research Service, the General Accounting Office, the American Bankers Association, and the Nebraska Bankers Association all indicate that the System continues to fall short of its special mission of lending to YBS farmers and ranchers. We again urge the FCA to adopt the recommendations I made before you last November. These recommendations include:

- Work aggressively to improve the reporting of FCS loan information;
- Develop a "hard target" system for FCS institutions to follow when making, monitoring, processing, and reporting loans to YBS borrowers;
- Develop actionable criteria that FCA can enforce to regulate the performance of a specific FCS institution;
- Develop a "scorecard" for System performance so that FCS institutions may be compared, better supervised, and corrected;
- Create an Affordable Farming Program modeled after the Affordable Housing Program implemented by the Federal Home Loan Bank System.

“Moderately Priced” Rural Housing

In response to Question 4, we believe that 75 percent of the median housing value appears to be a reasonable measurement in defining “moderately priced” housing. It is difficult, however, to make any kind of judgment about FCS mortgage lending practices due to the lack of information available to the public. As such, we recommend that FCA require all System institutions that make housing loans to report home mortgage lending data. The data should include applications taken, funded, and rejected for home purchases, refinancings, home improvement projects, plus non-owner and multi-family loans. In addition, System lenders should report applications and lending activities by race, gender, income, and home price. This information would allow the public to evaluate System lending practices and determine if the System is meeting its mandate to fund “moderately priced” housing in rural America. Until at least two years of FCS data is available for evaluation, we believe no change is necessary in FCA’s current definition of “moderately priced” rural housing.

Conclusion

We appreciate this opportunity to share our thoughts with you concerning FCA’s most recent proposals. As the FCS’ regulator, FCA bears a great responsibility for ensuring that the mission of the System is not abandoned and that the shift away from lending to young, beginning, and small farmers is reversed. We urge FCA to act upon our recommendations for the benefit of all rural Americans, particularly young, beginning, and small farmers and others who are at an economic disadvantage. It is our hope that the Farm Credit System will find its way back home and that the FCA, as its regulator, will help lead the way by refocusing the FCS on its mission.